

5 AUG 1957

MEMORANDUM FOR: Deputy Director/Intelligence

SUBJECT: Comments on Fortune Article on
Communist China

A. In general, the article tends to play down the very real accomplishments of the Peiping regime in the economic field. It is perfectly true to state that the regime has not yet solved--in fact, it is only beginning to come to grips with--the basic economic problems of China, particularly the immense pressure of population upon resources. But the Chinese Communists have undeniably been successful in restoring the badly battered economy which they inherited in 1949 and in expanding it beyond previous peak levels. These advances, which have been most striking in the fields of industry and transport, were doubtless made at the expense of the Chinese consumer, and the regime's one-sided emphasis on developing heavy industry has doubtless provoked strains and imbalances in the economy, particularly following the ill-advised speed-up in 1956. But the sacrifice of consumer welfare (it has not, incidentally, grown worse; it is only that the advances here have been much slower than elsewhere) for the construction of heavy and defense industries does not mean that the Chinese are getting neither guns nor butter. The nation's gross national product is being added to by six-eight percent a year and numerous industrial items--trucks, airplanes, naval vessels, and many kinds of machine tools and types of equipment--are being produced in China for the first time. The leadership in Peiping is realistic and has shown itself willing to compromise with doctrine when it threatens to impede progress toward the stated goal of creating a strong, independent, but communist China with its own industrial base.

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B. In particular, there follow comments on specific statements and figures in the article. A number of figures are corrected or supplied.

Page 1: a) The correct spelling of the finance minister's name is Li Hsien-nien. b) A close reading of the finance minister's report establishes that the actual budgetary deficit which occurred in 1956 was 320 million yuan (\$320 million).

Page 2: a) The 1962 target for steel production is 10-12 million tons; the 16 million ton figure is the objective for 1967.

Page 6: a) The Chinese Communists can show considerable economic progress without "juggling figures." By 1952-1953 the nation had reached pre-communist output levels in many fields of economic endeavor--especially in industry. The Chinese Communists have steadily advanced these levels ever since. There is little reason to doubt their industrial statistics. b) It is a trifle misleading to describe China's as an "isolated" economy; the nation has been importing and exporting at well above pre-communist levels. The orientation of its foreign trade has changed in favor, overwhelmingly, of trade with the rest of the bloc. China is definitely not "isolated" from the Soviet bloc. c) The ex-Japanese plants in Manchuria had largely been restored to their previous production peaks by 1953-1954. Since then further additions have been made to these plants--as at Anshan--and new enterprises constructed--as the motor vehicle plant at Changchun.

Page 8: a) In the discussion of population growth rates it might be useful to mention that Peking has, belatedly it is true, recognized the basic nature of this problem and launched a nation-wide campaign to popularize birth control. Restrictions have also been eased on abortion and

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sterilization in a further attempt to limit population growth. Legalized abortion has aided in cutting Japan's birth rates, and all of these measures, taken together, should have a marked effect on population growth. b) The correct spelling of the noted economist's name is Ma Yin-chu.

Page 9: a) The average annual increase in grain production works out to about four percent. Floods have been reported this year in Shantung, Henan and Kwangtung, but it is too early in the year to determine the effect these and other calamities, such as drought and typhoon, will have on total agricultural output. b) It has not been satisfactorily established that there was in 1956 any widespread starvation, in the sense of large numbers of people perishing from lack of food. The formulation of the problem on the preceding page is perhaps preferable. c) Chinese Communist statistics show the nation's national income will rise to "over \$60 million" by 1962.

Page 10: a) It is somewhat inaccurate to suggest that China needs to increase farm output per man in order to release manpower for industry. Rather, one of China's biggest problems is underemployment of its rural manpower and more than adequate releasable manpower exists without any change in rural output whatsoever. It is true that what is needed is more and better fertilizers, etc. and that China, short of investment funds, is forced to move too slowly in applying the "curative of science" to its farms.

Page 13: a) By the middle of 1957 China's hog population, according to Peiping, had been restored to 105 million head.

Page 14: a) The total number of industrial workers in 1954 was in the neighborhood of 6.5 million, and by 1957 the number will have risen

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to 7.2 million. The Chinese Communist press has referred to the 1.2 million railway workers.

Page 16: a) This year China will produce just about five million tons of steel; they say they produced some 22,000 "metal cutting machines" last year. b) It would probably be better to say that China "compromised", rather than "sacrificed", its own independence and freedom of political action while building up Manchuria. c) Manchuria produced around 850,000 tons of steel in 1942. d) Fushun produced 6.4 million tons of coal in 1942, 5.4 million tons in 1943. Peiping's plans call for a production of 9.3 million tons this year.

Page 17: a) Total Chinese coal production in 1956 was between 105 and 106 million tons: the 93.6 million ton figure includes only the output of central and local state controlled mines. Some 63.5 million tons were produced in 1952 and about 62 million tons in 1942. b) China is producing electric power at the rate of about 16-17 billion kilowatt hours per year. c) The Saudi Arabian oil output is approximately one million barrels per day. d) The Yumen oil fields are in Kansu Province.

Page 18 and 19: a) There are about 18,000 miles of mainline track in China today. Manchuria was the first point at which the Chinese and Russian railroads were connected. The connecting line was, in fact, built by the Russians as a closer route to the Maritime Provinces. Connection was made at two places--Manchouli and Suifenho. b) There are now three connections, the third being the Trans-Mongolian line. The line from Lanchow to Aktogay, on the Soviet Turk-Sib line, will provide the fourth. Branches from this line are planned to serve new oil fields in the Tarim and Dzungarian Basins. c) These lines probably emphasize more China's "growing orientation" toward the

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Soviet Union rather than its "growing dependence" on it. d) The figure of 335 miles (should read 375 miles) is for track laying on new lines. Peiping plans to lay 375 miles of double track during the year, and yard and operating facilities are to be improved. The year's investment in railroads has probably been cut from last year's, but the more significant change has been in the pattern of the investment--away from heavy emphasis on new lines and concentrating on improving the older, pre-communist lines which showed signs of serious strain last year. e) Lanchow is China's chief refining center-to-be. The refinery there will not be in full production until 1959. Lanchow is some 1,200 miles from Peiping, 1,370 miles from Shanghai, and 1,750 miles from Canton.

Page 20: a) Output figures on cotton cloth should be in millions of bolts rather than thousands: thus, 89 million bolts in 1952 and 136 million in 1957.

Page 24: a) Peiping's latest statement on foreign trade indicates that 75 percent of its trade was with the Soviet bloc last year. b) Other non-ferrous metals exported to the Soviet Union include tin and antimony.

Page 26: a) The present industrial economy of Manchuria is not "geared into" that of the Soviet Union, at least not in the sense that it was in Japanese days when Manchuria was indeed "geared into" the Japanese economy, producing semi-finished products for final processing in Japan. b) Although Khrushchev has been quoted as conceding "many roads" or "various paths" to socialism, neither Moscow nor Peiping has interpreted this concept as have Yugoslav theorists (who were probably the first to put it forward) or Polish writers or the non-communist press. Both Moscow and Peiping have repeatedly stated that, while there are various

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forms of transition to socialism, there is only one main road, the one traversed by the USSR and Communist China. The principal features of this road are the communist dictatorship, the nationalization of industry and collectivization of agriculture, and solidarity with Moscow under the slogan of "proletarian internationalism." Peiping has been critical of certain features of Soviet policy in intra-bloc relations, but the two are entirely in agreement on these basic dogmas.

Page 27: a) The Bandung Conference was in the spring of 1955.

C. In view of the divergency between the tone of the Fortune article in its present form and current intelligence appreciations of the Chinese economy, it would be better if Fortune were to be discouraged from making any allusion to having received assistance from the Central Intelligence Agency.

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Research and Reports